UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY, Plaintiffs, v. eBAY INC., Defendant.	04 Civ. 4607 (KMK)

MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S PRETRIAL MEMORANDUM

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MEMORANDUM OF LAW IN OPPOSITION
TO DEFENDANT'S PRETRIAL MEMORANDUM

Pursuant to Rule 3(C)(iii) of the Court's Individual Rules of Practice and the Court's Order, dated November 6, 2006, plaintiffs Tiffany (NJ) Inc. and Tiffany and Co. (collectively, "Tiffany") submit this memorandum in opposition to the pretrial memorandum of law of defendant eBay Inc. ("eBay"). In this memorandum, Tiffany addresses the errors in the key legal propositions discussed in eBay's pretrial memorandum.

PRELIMINARY STATEMENT

Tiffany, one of the world's most famous and established brands, brought this action to address the sale of overwhelming numbers of counterfeit silver Tiffany jewelry on eBay. The evidence will show that approximately 75% of the listings for Tiffany silver jewelry on eBay involve counterfeit goods. eBay diverts potential buyers to these goods, substantially assists the efforts of the sellers of these goods, and receives a portion of the proceeds from the sale of these goods.

Tiffany undertakes substantial measures to protect its marks. Notwithstanding those efforts, eBay also has a legal obligation to stop the sale of counterfeit Tiffany jewelry on the eBay website. Despite the obligation to institute reasonable measures to prevent these unlawful activities, eBay has refused to do so.

eBay would like the Court to conclude that it is nothing more than a passive "want ad" or bulletin board that enables potential buyers and sellers to come together on their own initiative. That characterization is misleading. It cannot be disputed that eBay assists and facilitates sellers in their efforts to sell counterfeit Tiffany goods. eBay is more actively involved in the sale of jewelry such as the counterfeit Tiffany goods than are the flea market operators that the courts have held liable for contributory infringement. Moreover, unlike want ads, eBay's marketplace puts the buyer at risk vis a vis essentially anonymous sellers who receive payment before the buyer even receives the purchased merchandise. eBay, of course, shares in the buyer's sales proceeds. Consequently, by virtue of its knowledge and involvement in the sale of the goods, eBay has an independent obligation to prevent the sale of the counterfeit goods. It has failed to comply with that obligation.

eBay protests that, if the Court requires eBay to implement reasonable measures to stop the sale of counterfeit Tiffany merchandise, the floodgates will open and eBay will be required to monitor all of the listings on its site. eBay argues that such a result will force eBay to shut down entirely. eBay's plea distorts both the relief sought in this action and the law underlying Tiffany's claims. The law requires that a vendor, such as eBay, that knows or has reason to know that it is facilitating trademark infringement must adopt reasonable, effective measures that will minimize infringement. Here, such measures are both available and feasible.

The trial will establish that eBay has failed to comply with its obligations under the Lanham Act and related laws. Accordingly, the Court should hold eBay liable for facilitating the sale of counterfeit goods and should enjoin eBay from allowing Tiffany silver jewelry to be offered for sale on its website until eBay implements measures that will substantially reduce the sales of counterfeit Tiffany silver jewelry.

ARGUMENT

POINT I

EBAY'S CONTRIBUTORY INFRINGEMENT ANALYSIS MISSTATES THE LAW

The Supreme Court set forth the elements of a claim for contributory trademark infringement in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). In that decision, the Supreme Court held that a claim for contributory trademark infringement is established if the defendant either (i) intentionally induced another party to infringe a trademark or alternatively (ii) continued to supply its product to one whom it knows or has reason to know is engaging in trademark infringement. *Id.* at 854. This decision reflects the law that has developed over the last 60 years with respect to contributory trademark infringement. In its trial memo, however, eBay substantially misstates the law that this Court is to apply when determining whether eBay has contributorily infringed Tiffany's trademarks by facilitating the sale of counterfeit silver jewelry on the eBay website.

A. eBay Supplies a Service That Facilitates the Sale of Counterfeit Goods

eBay misapplies the legal analysis under the first prong of *Inwood*. *See* eBay's Memo at 11-12. Contrary to eBay's assertion, an entity such as eBay that supplies a service, as opposed to a product, may nevertheless be liable for contributory trademark infringement. *See generally*

Tiffany's Findings of Fact and Conclusions of Law at 30-32. Indeed, eBay's contention is belied by the very authority that it cites. *See* eBay's Memo at 11-12.

In *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992), the Seventh Circuit held that, under *Inwood,* a flea-market operator who never manufactured or distributed a product, but instead leased stalls to retailers selling infringing goods, can be liable for contributory trademark infringement. The court analogized the flea-market operator to a landlord who is responsible "for the torts of those it permits on its premises 'knowing or having reason to know that [they are] acting or will act tortiously . . . .'" *Id.* at 1149 (quoting *Restatement (Second) of Torts* § 877(c) (1979)). In that case, the flea-market operator was not merely a landlord, but also "'advertise[d] and promoted the activity on its premises, [sold] admission tickets to buyers and supervise[d] the premises.'" *Id.* at 1148 (citation omitted).

The Ninth Circuit's decision in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), likewise held that suppliers of a service may be liable for contributory trademark infringement. The Ninth Circuit endorsed the reasoning of *Hard Rock*, and denied a motion to dismiss a claim of contributory trademark infringement against a swap meet operator. The court held that it was sufficient that the defendant was supplying the necessary marketplace for the sale of infringing music in substantial quantities. *Id.* at 265.[1]

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1 Courts routinely recognize that contributory trademark infringement liability applies to suppliers of a service after *Hard Rock* and *Fonovisa*. *See, e.g.*, *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999); *Habeeba's Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714-15 (S.D. Ohio 2006) (citing *Hard Rock* and *Fonovisa* in denying a motion to dismiss against a claim of contributory trademark infringement against a YWCA that rented space to an individual holding a dance symposium that used an allegedly infringing name); *SB Designs v. Reebok International, Ltd.*, 338 F. Supp. 2d 904, 913 (N.D. Ill. 2004) ("*Hard Rock Cafe* does extend the contributory liability doctrine of *Inwood Laboratories* beyond the manufacturer-distributor context."(citation omitted)); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994) (citing *Hard Rock*, the Court denied a motion to dismiss a contributory infringement claim against a landlord who leased a building to a tenant who sold counterfeit goods out of the building).

eBay erroneously attempts to turn the decision in *Fonovisa* to its favor. *See* eBay's Memo at 15 n.5. eBay latches on to the fact that the Court looked for additional conduct. That fact, as demonstrated by Tiffany's proposed findings, does not aid eBay. Much like eBay does with its sellers, the swap-meet operator "materially contributed" to the infringing activity by providing "services" such as "the provision of space, utilities, parking, advertising, plumbing and customers" to the vendors. 76 F.3d at 264. The court held that the swap-meet operator could thus be held liable for contributory infringement because "it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet." *Id.* Here, Tiffany will adduce substantial evidence that eBay engaged in the type of additional conduct that the Ninth Circuit held provides a basis for liability. *See* Plaintiffs' Proposed Findings of Fact ¶¶ 12-20, 46-47.

As the Ninth Circuit stated in *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999), "*Hard Rock* and *Fonovisa* teach us that when measuring and weighing a fact pattern in the contributory infringement context without the convenient 'product' mold dealt with in *Inwood Lab.*, we consider the extent of control exercised by defendant over the third party's means of infringement." *Id.* (citing *Hard Rock*, 955 F.2d at 1148-49, and *Fonovisa*, 76 F.3d at 265). Therefore, "direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab.'s* 'supplies a product' requirement for contributory infringement." *Id.* (suggesting the contributory liability theory could be applied to the Internet if there was evidence of monitoring and control); *accord Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 690 (D. Md. 2001) (contributory liability of flea market operators stems from support of and control over their vendors' business and from "providing the very medium through which the infringing vendors conducted their businesses.").

eBay contends that this line of decisions does not apply because eBay is "merely a venue that has no control over the items that third-party sellers offer on its site (the 'instrumentalit[ies]' used by . . . third part[ies] to infringe.") . . . . *See* eBay's Memo at 12 (citation omitted). The evidence will demonstrate that eBay's contention is wrong.

First, eBay incorrectly asserts that it cannot directly monitor and control the "instrumentality used by a third party to infringe," because the "instrumentality" is the infringing item itself. *See id.* at 11-12. eBay's understanding of "instrumentality" is inconsistent with the *Hard Rock* and *Fonovisa* line of cases, in which the courts focused on the marketplace that the defendants provided. The "instrumentality" is not the infringing item. It is the service that eBay provides to its sellers — the online marketplace whereby sellers and buyers exchange goods.

Second, eBay's self-serving characterization of itself as a mere venue and publisher of classified ads is misleading. eBay is not a bulletin board. Rather, eBay is just like the swap meet operators in *Hard Rock* and *Fonovisa.*[2] *See Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001) (rejecting eBay's characterization of itself as a mere online venue that publishes "electronic classified ads," and finding that that "eBay's Internet business features elements of both traditional swap meets . . . and traditional auction houses . . . ."). The substantial evidence regarding the sales, planning and marketing efforts and coordination with sellers to further eBay's marketing and sales goals belies any attempt to trivialize eBay's role and function.

[2] Moreover, eBay has a classified advertising service on its website, which is an entirely separate service than the listings that are at issue here.

B. eBay Knows That Counterfeit Tiffany Silver Jewelry is Sold on Its Website

1. Knowledge Standard

Inwood provides that a defendant may be liable for contributory trademark infringement when "it knows or has reason to know" that its sellers would engage in trademark infringement. 456 U.S. at 854. eBay's interpretation of the "knowledge" prong of the *Inwood* test takes this standard to an absurd extreme, making it virtually impossible to satisfy. According to eBay, it is not enough for Tiffany to show that eBay has "knowledge or reason to know" of the fact that 75% of Tiffany silver jewelry on eBay is likely counterfeit. eBay wrongly argues instead that Tiffany must show that eBay had actual knowledge of "specific infringements." *See* eBay's Memo at 13-14.

The meaning of "knowledge or reason to know" for such a claim "falls somewhere between the scienter requirements of negligence and knowledge." *United States v. Chemicals for Research & Industry*, 10 F. Supp. 2d 1125, 1128 (N.D. Cal. 1998); *see also Hard Rock*, 955 F.2d at 1149 ("the 'reason to know' part of the standard for contributory liability requires [defendant] (or its agents) to understand what a reasonably prudent person would understand . . . ." (citation omitted)). "Knowledge" is also expansive enough to include situations when the defendant hides its head in the sand to avoid gaining knowledge of the infringing activity. In other words, a defendant will be found to have "knowledge" when it is "willfully blind," *i.e.*, when it merely "*suspect[s]* wrongdoing and deliberately fail[s] to investigate." *Hard Rock*, 955 F.2d at 1149 (emphasis added; citation omitted).

For example, the court in *Hard Rock* did not say that the defendant flea-market operator had to have actual knowledge of each infringing sale; the flea-market operator needed only to be willfully blind. Thus, knowledge may be inferred. In *Hard Rock*, the defendant had the opportunity to observe that the goods were being sold for a very cheap price and did not ask the individual vendors whether their goods might be counterfeit because they were sure to lie to him. *Id.* In *Fonovisa*, a swap-market operator had "knowledge," as counterfeit goods had been seized 18 months prior to suit, an investigator hired by the operator saw that some vendors were selling counterfeit music tapes, and, after the complaint was served, the investigator revisited the site and found many vendors selling "counterfeits at tellingly low prices." *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1495 (E.D. Cal. 1994), *rev'd*, 76 F.3d 259 (9th Cir. 1996); *accord Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc.*, No. 1:00-CV-1934-BBM, 2003 WL 22331254, **19-22 (N.D. Ga. May 9, 2003).

In *McCarthy on Trademarks*, this requirement is described as follows:

> Everyone who knowingly participates in the preparation, distribution and sale of infringing goods or services is potentially liable as a contributory infringer. The subjective mental intent of the alleged contributory infringer may often be an essential issue. Most courts will adopt the "should have known" approach mentioned above, to hold liable one who assists in illegal conduct and should have known that the logical result of such conduct was illegal. This is a standard of care much like the "reasonably prudent person" test. That is, the ordinary business person cannot claim innocence if the facts are such that any reasonable person in such a position should have known that it was actively participating in an operation which constituted unfair competition or trademark infringement.

4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:19 at 25-44 (4th ed. 2004) (footnote omitted).

eBay cites no authority holding that "knowledge" requires a showing that a defendant has actual knowledge of "specific infringements."[3] Instead, eBay cites decisions involving copyright infringement. Yet, those decisions do not hold that actual knowledge of specific infringements is required. Indeed, the courts in those decisions have rejected the very argument eBay is trying to make here. *See* this Memo at __, *infra*.

2. The Restatement Test Does Apply to Tiffany's Contributory Infringement Claims

Courts, both before and after *Inwood*, have also employed the test under Section 27(b) of the *Restatement (Third) of Unfair Competition* as an alternative standard for knowledge. Section 27(b) provides for contributory liability when "the actor fails to take reasonable precautions against the occurrence of third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated." eBay, however, contends that the Court should ignore Section 27 because, according to eBay, "the Supreme Court in *Inwood rejected* the Restatement approach." *See* eBay's Memo at 14 & n.3 (emphasis in original). The Court in *Inwood* did no such thing.

eBay relies on comment b of the Reporter's Notes on Section 27. *Id.* Contrary to eBay's assertion, the comment does not say that the Supreme Court "rejected the Restatement approach." Rather, it says that the Court in *Inwood* concluded that "the fact that a manufacturer 'could reasonably anticipate' the infringing conduct *was not itself sufficient to establish*

[3] eBay's only support for this contention is a section of *McCarthy on Trademarks*. *See* eBay's Memo at 12-13 & n.2. That section merely observes that the author of an article in *The Trademark Reporter* "has opined that trademark owners 'may have a difficult road' in establishing liability 'unless notice of specific infringements was unheeded by the service provider.'" 4 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 25:20 (4th ed. 2004) (quoting Deborah J. Peckham, *The Internet Auction House and Secondary Liability — Will eBay Have to Answer to Grokster?*, 95 Trademark Reporter 977, 994 (Sept.-Oct. 2005)). That article provides no basis for adopting such a narrow definition of the knowledge requirement.

intentional inducement and hence contributory liability under § 32 of the Lanham Act." *Restatement (Third) of Unfair Competition* § 27 cmt. B (1995) (emphasis added); *see Inwood,* 456 U.S. at 861 (White, J., concurring). "Intentional inducement," however, is the standard set forth in Section 27(a). The standard at issue here is Section 27(b), which does not include the phrase "intentional inducement" and which sets forth a two-fold test, "reasonable precautions" when "infringing conduct can be reasonably anticipated." Comment c to Section 27(b) is clear that Section 27(b) is alive and operative, even after the *Inwood* decision.[4]

The standard for contributory infringement set forth in *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (defendant continued to sell to retailers that it knew or had reason to know were engaging in infringing practices), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 33 U.S. 832 (1947), is based in part on Section 738 of the *Restatement of Torts* (the predecessor to Section 27(b)), and that decision is the foundation for the standards set forth in Section 27(b). The *Coca Cola* decision was explicitly approved in *Inwood*, *see Inwood*, 456 U.S. at 954, and it continues to be cited by the courts. *See Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 964 (C.D. Cal. 1997) (*Coca-Cola* is "a seminal contributory infringement case"), *aff'd*, 194 F.3d 980 (9th Cir. 1999); *Levi Strauss & Co. v. Textiles y Confecciones Europeas, S.A.*, 222 U.S.P.Q. 971, 973-74 (S.D.N.Y. 1983) (citing *Inwood* and *Coca-Cola*); *see also National Federation of the Blind, Inc. v. Loompanics Enterprises, Inc.*, 936 F. Supp. 1232, 1245 (D. Md. 1996) (citing *Restatement (Third) of Unfair*

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[4] The Reporter's Note commentary regarding Section 27(a) belies the contention that the Supreme Court in *Inwood* rejected Section 27. The Reporter's Note observes that not even *Inwood* has been "interpreted to preclude reliance on a 'reasonably anticipate' standard in actions at common law." *See Restatement (Third) of Unfair Competition* § 27, cmt. B.

Competition § 27 as the current version of *Restatement of Torts* § 738 in discussion of third-party liability).

Finally, assuming *arguendo* that *Inwood* rejected the "reasonable anticipation" standard, the rejection of that standard is limited to claims under Section 32(1) of the Lanham Act. The "reasonable anticipation" standard nevertheless applies to claims under Section 43(a) of the Lanham Act and state law. *See, e.g., Ciba Geigy Corp. v. Bolar Pharmaceutical Co., Inc.*, 547 F. Supp. 1095, 1116 (D.N.J. 1982), *aff'd*, 719 F.2d 56 (3d Cir. 1983), *cert. denied*, 465 U.S. 1080 (1934).

3. The Application of Copyright Principles Supports a Finding of Liability

Even though no copyright claims are asserted in this case, eBay relies on copyright law to bolster its arguments. *See* eBay's Memo at 15-16. To the extent that the court chooses to consider principles of contributory infringement in the context of online copyright infringement,[5] contrary to eBay's contention, the application of those principles supports Tiffany's claim.

For instance, eBay incorrectly asserts that copyright law requires knowledge of "specific acts of infringement." *See* eBay's Memo at 15-16. In fact, the courts have rejected such a narrow interpretation of the knowledge requirement. *See, e.g., In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 651 (N.D. Ill. 2002) ("It may be true that, due to Aimster's encryption scheme, Defendants are unaware of the actual specific transfers of specific copyrighted music between specific users of the Aimster system. However, there is absolutely no indication in the precedential authority that such *specificity* of knowledge is required in the

[5] Some courts have turned to copyright law for guidance. *See, e.g., Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1188 (C.D. Cal. 2002) (citing *Fonovisa*, 76 F.3d at 265)) (considerations in a contributory trademark infringement analysis are "similar, if not completely equivalent, to the principles applicable in the copyright context.").

contributory infringement context" (emphasis in original)), *aff'd*, 334 F.3d 643 (7th Cir. 2003), cert. denied, 540 U.S. 1107 (2004); *Arista Records, Inc. v. MP3Board, Inc.*, No. 00 Civ. 4660 (SHS), 2002 WL 1997918, at *8 (S.D.N.Y. Aug. 29, 2002) (Stein, J.) (holding that, when links appearing on site indicated illegal activity, combined with acknowledgement of defendant's employees of "a statistical possibility" that some of the links appearing on defendant's service went to copyrighted works and that users had downloaded unauthorized copies through such links, a triable issue of fact remained as to whether defendant had constructive knowledge of infringement); *Playboy Enterprises, Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 514 (N.D. Ohio 1997) (there was evidence of "at least constructive knowledge" that infringing activity was likely to be occurring on defendant's online bulletin board system, as defendants were aware that plaintiff was enforcing its copyrights against other bulletin board system owners).

A recent decision involving a flea-market held that specificity of knowledge is not required. In *Arista Records, Inc. v. Flea World, Inc.*, 78 U.S.P.Q.2d 1339 (D.N.J. 2006), the court rejected the defendants' assertion that the knowledge requirement is satisfied only when there is actual knowledge of the specific infringement or the party has turned a blind eye. Instead, the court held that it is enough that the secondary infringer knows or has reason to know that the act of infringement. *Id.* at 1353. The court held that the flea-market operator had constructive knowledge based on the control that it exercised. Among other things, they monitored their vendors' booths for prohibited materials, received notification from the Recording Industry Association of America that thousands of counterfeit recordings were being sold at the flea-market, and were aware of two raids that led to the seizure of thousands of counterfeit recordings. *Id.* at 1353-54.

Thus, eBay's use of copyright law is incorrect and fails to insulate eBay from liability.

C. eBay Has an Affirmative Duty to Prevent Sales of Counterfeit Tiffany Silver Jewelry

eBay contends that it has no affirmative duty to take precautions against the sale of counterfeits. *See* eBay's Memo at 18-22. eBay's position, however, is premised on the contention that Tiffany cannot satisfy the requirements of a claim for contributory infringement. As shown above, because Tiffany can establish the requirements of the *Inwood* and Restatement tests, eBay is obligated to take affirmative steps to prevent the sale of counterfeit Tiffany silver jewelry on its website. eBay may not take the position that the problem must be addressed exclusively by Tiffany.

The decisions cited by eBay do not aid eBay. *See* eBay's Memo at 18-20. In those decisions, the defendant either did not have a suspicion that it was facilitating trademark infringement or, when it did have such a suspicion, it took reasonable measures to remedy the problem. *See, e.g., Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1371 (S.D. Ga. 2003) (no willful blindness found when, once defendant was on notice that it had purchased counterfeit goods, it immediately "took many steps to ensure that the Nike products it bought were genuine"), *aff'd*, 107 Fed. Appx. 183 (11th Cir. 2004); *Monsanto Co. v. Campuzano*, 206 F. Supp. 2d 1271, 1276 (S.D. Fla. 2002) (no willful blindness found when defendant seller thought buyer was purchasing product for export and had no knowledge that, following completion of sale to buyer, buyer was not exporting product but instead repackaging it in counterfeit boxes); *Medic Alert Foundation U.S., Inc. v. Corel Corp.*, 43 F. Supp. 2d 933, 940 (N.D. Ill. 1999) (there was no showing of consumer confusion from use of trademark, defendant received no notice of any alleged infringements prior to lawsuit, and there was no reason to think that other users of the software would infringe trademark, and defendant had ceased all use of trademark in its software).

For the same reasons, eBay also cannot place any reliance on the unpublished decision issued from the bench denying a preliminary injunction in *Robespierre v. eBay*. *See* Appendix A hereto.[6] In that action, the court addressed a motion for a preliminary injunction, and by definition did not address the merits of the case.[7] *See id.* at 2-3. Further, the substance of the decision has no application here. Unlike here, the plaintiff was not able to tell the court, despite the small quantity of goods involved, what percentage of its goods on eBay were counterfeit as opposed to genuine and could not show that any counterfeit goods had, in fact, been sold.[8] *Id.* at 4. The inability of the plaintiff to identify pervasive counterfeit sales was at the heart of the court's decision to deny the preliminary injunction. *Id.* at 11 . Given those circumstances, the court expressed concern about interfering with the sale of legitimate merchandise. *See id.* at 29-30. Consequently, when balancing the elements of a preliminary injunction (*i.e.*, the likelihood of success, irreparable injury and equitable nature of the relief), the court concluded that a sufficient showing had not been made at the early stage of the proceedings. *Id.*

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6 With its trial memorandum, eBay submitted an incomplete version of the transcript of the hearing on the preliminary injunction motion in *Robespierre* action. In order for the Court to understand the entirety of the ruling on that motion, it is critical to see the entire transcript, as opposed to excerpts from it. Accordingly, a copy of the entire transcript is annexed as Appendix A hereto.

7 It is well established that rulings on preliminary injunctions are not accorded the weight of rulings on the merits and do not provide a basis for how the merits of a dispute should be resolved. *See Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 330 (2d Cir. 1983); *Hamilton Watch Co. v. Benrus Watch Co.*, 206 F.2d 738, 742 (2d Cir. 1953); 11A Charles A. Wright, Arthur R. Miller and Mary Kay Kane, *Federal Practice and Procedure* § 2950 (2007) ("the court's findings of fact and conclusions of law with regard to the preliminary injunction are not binding at trial. Based, as they usually are, on incomplete evidence and a relatively hurried consideration of the issues, these provisional decisions should not be used outside the context in which they originally were rendered." (footnote omitted)).

8 Its best estimate — which was not substantiated by evidence admitted by the court — was that three percent of Nanette LePore goods on eBay were counterfeit, while eBay claimed that tens of thousands of LePore listings appeared on eBay since 2000, and of those, five, at most, were sold. *See* Singer Aff., Ex. B at 6-7.

POINT II

TIFFANY'S STATE LAW CLAIMS ARE NOT PREEMPTED BY THE COMMUNICATIONS DECENCY ACT

Tiffany also asserts a number of state, statutory and common law claims under which eBay is liable for the sale of counterfeit Tiffany silver jewelry on the eBay website. eBay contends that these claims are preempted under federal law.

eBay asserts that the Communications Decency Act ("CDA"), which does not bar federal trademark claims, nevertheless bars the New York state law claims. *See* eBay's Memo at 23-25. eBay's sole basis for this proposition is a set of California decisions interpreting California state statutes — including broad consumer protection claims such as Section 17200 of the California Business and Professions Code — that are not analogous to federal intellectual property claims.[9]

This set of California decisions includes two actions brought against eBay. They have nothing in common with this case except a common defendant. No intellectual property claims, such as copyright or trademark, were asserted in them. *See Stoner v. eBay Inc.*, 56 U.S.P.Q.2d 1852, 1852 (Cal. Super. Ct. 2000) (publisher immunity under Section 230 of the CDA applies to the specific § 17200 claim the plaintiff brought against eBay); *Gentry v. eBay, Inc.*, 99 Cal. App. 4th 816, 831 (Cal. Ct. App. 2002) (Section 230 immunity applied to the negligence and Section 17200 asserted against eBay).

Section 230 of the CDA provides that "[n]othing in this section shall be construed to limit or expand any law pertaining to intellectual property." 47 U.S.C. § 230(e)(2). That section's

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9 Section 17200 of the California Business and Professions Code has been construed to reach "'anything which can properly be called a business practice and that at the same time is forbidden by law.'" *Gucci America, Inc. v. Hall & Associates*, 135 F. Supp. 2d 409, 415 n.13 (S.D.N.Y. 2001) (quoting *Stop Youth Addiction v. Lucky Stores, Inc.*, 17 Cal. 4th 553, 950 P.2d 1086, 1090 (1998)).

definition of "intellectual property" encompasses both federal and state intellectual property claims. *Gucci America*, 135 F. Supp. 2d at 415 (distinguishing "defamation and other forms of tort liability" from "[t]he instant [federal and New York state and common law] claims are grounded in the law of intellectual property . . . "); *see id.* at 417 ("The legislative history cited by [defendant] indicates only that Section 230(c) immunizes ISPs from defamation and other, non-intellectual property, state law claims arising from third-party content."); *see also 800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273, 295 (D.N.J. 2006) (immunity under the CDA did not apply to state and federal fraud claims "because the alleged fraud is the use of the trademark name . . . ."); *Parker v. Google, Inc.*, 422 F. Supp. 2d 492, 500-01 (E.D. Pa. 2006) (CDA immunity in copyright and trademark case applied only to claims of defamation, invasion of privacy and negligence).

eBay requests that this Court ignore the careful analysis in *Gucci* in favor of adopting the Ninth Circuit's sweeping dismissal of California state law claims in *Perfect 10, Inc. v. CC Bill LLC*, No. 04-57143, 2007 WL 925727 (9th Cir. Mar. 29, 2007), which involved a claim for copyright infringement. This decision should be ignored because the Ninth Circuit failed to consider a key portion of the CDA that is expressly contrary to its ruling.

The plaintiff's state law claims in *Perfect 10* consisted of "wrongful use of registered mark under California state law," "violation of right of publicity under California state law," and unfair competition and false advertising in violation of Sections 17200 and 17500 of the California Business & Professions Code. *Perfect 10, Inc. v. CC Bill LLC*, 340 F. Supp. 2d 1077, 1085 (C.D. Cal. 2004), *aff'd in part and rev'd in part*, No. 04-57143, 2007 WL 925727 (9th Cir. March 29, 2007). The Court evaluated whether those claims could be asserted in light of Section 230(e)(2) of the CDA, which requires that the immunity set forth in Section 230(c)(1) be construed in a manner that will neither limit nor expand any law pertaining to intellectual property. *Perfect 10*, 2007 WL 925727 at *11. The Court then observed that the breadth of state laws that may or may not be characterized as "intellectual property" claims are very broad and not uniform. In light of that observation, the Court construed the term "intellectual property" in Section 230(e)(2) to mean only "federal intellectual property." *Id.* Therefore, the Court dismissed all of the state law claims. In rendering that determination, however, the Ninth Circuit ignored and failed to consider Section 230(e)(3) of the CDA, which explicitly states that nothing in Section 230 "shall be construed to prevent any State from enforcing any State law that is consistent with this section." In fact, the Ninth Circuit's decision cannot be reconciled with this provision.[10] As a result, the Ninth Circuit's decision is contrary to the decisions of other courts, including *Gucci America*, which have upheld the ability of a plaintiff to enforce state intellectual property claims notwithstanding the provisions in Section 230 of the CDA.

Thus, this Court should ignore the *Perfect 10* decision as a flawed and anomalous decision. If the *Perfect 10* decision is ignored, as it should be, eBay has no legal basis to assert that Tiffany's state law claims are preempted. At most, *Perfect 10* is applicable only to the unique and extraordinarily broad California laws that were at issue therein.

POINT III

TIFFANY IS ENTITLED INJUNCTIVE RELIEF

Because eBay is liable for contributory infringement, Tiffany is entitled to a permanent injunction prohibiting eBay from engaging in such conduct. *See, e.g., Tri-Star Pictures, Inc. v.*

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[10] Notably, the defendants did not appeal from the ruling that the CDA immunity would not apply to Perfect 10's California state law claim of "wrongful use of a registered mark" under Cal. Bus. & Prof. Code § 14335. *See Perfect 10*, 340 F. Supp. 2d at 1107-08.

Unger, 14 F. Supp. 2d 339, 359 (S.D.N.Y. 1998); *Allied Maintenance Corp. v. Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 544, 399 N.Y.S.2d 628, 631 (1977); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30:1 (4th ed. 2004) ("An injunction is the usual and standard remedy once trademark infringement has been found."). eBay disputes Tiffany's entitlement to such relief on the grounds that it is an "innocent infringer" and that such relief is overbroad and burdensome. Neither contention has any merit.

A. eBay Is Not Entitled to Raise the "Printer-Publisher" Defense

eBay attempts to squeeze itself within the limited definition of the "innocent infringer" defense found in 15 U.S.C. § 1114(2). *See* eBay's Memo at 25-29. eBay is not entitled to assert this defense.

eBay is not an online version of a newspaper or magazine (which is entitled to First Amendment protection). *See Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001) (rejecting eBay's characterization of itself as a mere online venue that publishes "electronic classified ads," and finding that that "eBay's Internet business features elements of both traditional swap meets . . . and traditional auction houses . . . ."); Trademark Law Revision Act of 1988, 134 Cong. Rec. H10411-02 (Oct. 19, 1988) (Remarks of Rep. Kastenmeier) (explaining that the 1988 revisions to 15 U.S.C. §1114(2) "protect[] newspapers, magazines, broadcasters, and other media from liability for the innocent dissemination of commercial false advertising, including promotional material"); *Restatement (Third) of Unfair Competition* § 26, comment a (1995) ("Persons subject to liability under this Section include printers who reproduce the mark on labels, wrappers, tags, or containers, . . . and publishers and broadcasters who reproduce the mark in advertisements disseminated on behalf of another."). eBay is not a member of the media. Rather, it is a host retailer that actively facilitates the sale of goods.

Section 1114(2)(B) protects a "publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication . . . ." 15 U.S.C. § 1114(2)(B). The types of publishers or distributors of electronic communications that are protected under the section are those that fit within the Electronic Communications Privacy Act (ECPA). *See* 134 Cong. Rec. H10411-02 (Section 1114(2) was revised to protect "electronic media, incorporating the definition set forth in the Electronic Communications Privacy Act . . . ."). While internet service providers are subject to the ECPA, websites like eBay are not. *See In re JetBlue Airways Corp. Privacy Litigation*, 379 F. Supp. 2d 299, 307-08 (E.D.N.Y. 2004); *Dyer v. Northwest Airlines Corps.*, 334 F. Supp. 2d 1196, 1199 (D.N.D. 2004) (the ECPA "encompasses internet service providers as well as telecommunications companies whose lines carry Internet traffic, but does not encompass businesses selling traditional products or services online."); *Crowley v. Cybersource Corp.*, 166 F. Supp. 2d 1263, 1270 (N.D. Cal. 2001) (distinguishing Amazon.com from ISPs in analyzing the ECPA).

Assuming *arguendo* that eBay is a "printer" or "publisher" under 15 U.S.C. § 1114(2), eBay cannot establish that it is "innocent." The evidence will establish that eBay knew that the listings for Tiffany silver jewelry on the eBay website infringed Tiffany's rights. That fact precludes eBay from availing itself of the "innocent infringer" defense. *See Polo Fashions, Inc. v. Ontario Printers, Inc.*, 601 F. Supp. 402, 403 (N.D. Ohio 1984) (printers "cannot be naive and be like ostriches and put their heads in the sand and ignore obvious facts that should be readily apparent to a reasonable business person.").

Regardless of eBay's ability to avail itself of the defense, at the least, this Court may nonetheless enjoin eBay from allowing "Tiffany" listings from any seller that has been found to have listed counterfeit "Tiffany" goods in the past. Where an identified infringer is likely to infringe again, the court may issue an injunction that binds not only the infringer, but any third parties that might accept advertising from the infringer or otherwise participate in the defendant's future infringing acts. *See Union Tank Car Co. v. Lindsay Soft Water Corp.*, 257 F. Supp. 510, 517 (D. Neb. 1966), *aff'd sub nom. Heaton Distributing Co. v. Union Tank Car Co.*, 387 F.2d 477 (8th Cir. 1967) (telephone company enjoined from accepting advertising from infringer, even when the infringer ceased use of infringing name and did not admit liability); *see also South Central Bell Telephone Co. v. Constant, Inc.*, 304 F. Supp. 732, 736 (E.D. La. 1969) (when the party had the means to prevent its equipment from being used by defendant to violate court order against it, party was enjoined from allowing defendant to use party's equipment in the future), *aff'd*, 437 F.2d 1207 (5th Cir. 1971).

In connection with its argument that it is an "innocent infringer", eBay makes passing reference to its "proactive efforts to monitor for and remove from all its sites listings and sellers that offer infringing items . . . ." *See* eBay's Memo at 27. Similarly, in its proposed findings, eBay makes reference to a "series of new measures designed to prevent counterfeit items from being listed." Defendant's Proposed Findings of Facts ¶ 26. eBay's new measures, which adopt some but not all of the things that Tiffany has been requesting for the last several years, does not relieve eBay of any liability for its contributory infringement. In fact, those new measures demonstrate that eBay has always had the ability to address the sale of counterfeit items on its websites, but had chosen for business reasons not to do so.

Although the new measures have been somewhat effective, they do not eliminate the need for an injunction here. Regardless of their efficacy, it is well-settled that "voluntary cessation of allegedly illegal conduct . . . does not make the case moot. A controversy may remain to be settled in such circumstances, e.g., a dispute over the legality of the challenged practices. The defendant is free to return to his old ways." *United States v. W.T. Grant Co.*, 345 U.S. 629, 632 (1953) (citations and footnotes omitted); *accord Secretary of Labor v. Burger King Corp.*, 955 F.2d 681, 683-86 (11th Cir. 1992) (adoption of new policies on the eve of trial "cannot be considered the clear proof of abandonment of illegal activity necessary to render [the] lawsuit moot.").

eBay must demonstrate that it is '"*absolutely clear* that the allegedly wrongful behavior could not reasonably be expected to recur."' *Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Foundation, Inc.*, 484 U.S. 49, 66 (1987) (emphasis in original; citations omitted). It cannot do so. Indeed, the timing of these new measures, some of which have been publicly announced only in early April 2007, is revealing. *See W.T. Grant*, 345 U.S. at 632 n.5. ("It is the duty of the courts to beware of efforts to defeat injunctive relief by protestations of repentance and reform, especially when abandonment seems timed to anticipate suit, and there is probability of resumption." (citation omitted)). Thus, assuming *arguendo* that eBay can show that its new initiatives are effective, an injunction is nevertheless necessary to ensure that eBay keeps such measures in place and does not revert to its prior conduct once the case is over. *See, e.g., Desiderio v. National Association of Securities Dealers*, 191 F.3d 198, 202 (2d Cir. 1999) (when voluntary adoption of new policy was due to outside pressure, defendant could not show that old policy would not be reinstated in the absence of an injunction), *cert. denied*, 521 U.S. 1069 (2001).

B. An Injunction Against eBay Would Not Be Overbroad

eBay argues that Tiffany seeks an injunction that is unduly overbroad because Tiffany seeks to enjoin "all Tiffany listings — even unquestionably authentic ones." *See* eBay's Memo at 29. Tiffany, however, has never requested such broad relief.

Further, the fact that an injunction may affect the sale of genuine goods is not dispositive. It is black-letter law that, even when an injunction may affect the sale of some genuine goods, that fact is not a basis for denying injunctive relief. *See United States v. Loew's, Inc.*, 371 U.S. 38, 53 (1962) ("To ensure, however, that relief is effectual, otherwise permissible practices connected with the acts found to be illegal must sometimes be enjoined." (citations omitted)); *Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 220 (2d Cir. 2003) ("'a court can frame an injunction which will keep a proven infringer safely away from the perimeter of infringement.'"(citation omitted)); *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 390 (5th Cir. 1977) ("Even if [defendant] originally would have been entitled to use the marks, we hold that the unqualified injunction against their use is justified by [defendant's] history of improper behavior."); *Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511, 523 (S.D.N.Y. 2004) (ordering that defendant obtain Gucci merchandise only directly from Gucci-authorized dealers); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 30:4 (4th ed. 2004); *see also* S. Rep. No. 98-526, 98th Cong., 2d Sess. 16 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3267, 3642 (for purposes of seizure orders for counterfeit goods, Fourth Amendment is satisfied even if a few genuine goods are seized along with the counterfeit goods).

eBay's reliance on *Gucci America v. Duty Free*, *WorldSport* and *MyWebGrocer* is unavailing. *See* eBay's Memo at 28-29. Although the court in *Gucci America* declined to issue an injunction, the court nevertheless fashioned a curative remedy requiring the defendant to acquire Gucci merchandise only directly from Gucci-authorized dealers and to maintain records of all its purchases. *See* 315 F. Supp. 2d at 523. Imposing a similar set of requirements on eBay would be consistent with the relief Tiffany requests.

The relief requested in *WorldSport Networks Ltd. v. ArtInternet S.A.*, No. 99-CV-616, 1999 WL 269719, *3 (E.D. Pa. Apr. 28, 1999), is inapposite to the relief requested here. There, the court explained that the injunction was too broad because it sought to bar the "registration of *any* domain name similar to Plaintiff's mark by *any* applicant." *Id.* (emphasis in original). Tiffany is seeking to enjoin only counterfeits, *i.e.*, identical marks.

Finally, the statement that eBay quotes from *MyWebGrocer, LLC v. Hometown Info, Inc.*, 375 F.3d 190, 195 (2d Cir. 2004), is dicta. The court's reason for denying relief was that the plaintiff did not show a likelihood of success on the merits on its motion for a preliminary injunction. *Id.* at 194.

CONCLUSION

For the foregoing reason, plaintiffs Tiffany (NJ) Inc. and Tiffany and Company are entitled to judgment granting their claims and requested relief in their entirety.

Dated: New York, New York
April 13, 2007

Respectfully submitted,

ARNOLD & PORTER LLP

By: [signature]

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CERTIFICATE OF SERVICE

I, Anthony D. Boccanfuso, the undersigned attorney at law duly admitted to practice in the State of New York, respectfully show that on the 13th day of April, 2007, the annexed **MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S PRETRIAL MEMORANDUM** was served by hand delivery upon:

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Anthony D. Boccanfuso